

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Berrien County Road Commission</u>	County Berrien
Audit Date September 30, 2005	Opinion Date January 5, 2006	Date Accountant Report Submitted To State: February 16, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature <i>Plante & Moran, PLLC</i>			

Berrien County Road Commission

**Financial Report
with Supplemental Information
September 30, 2005**

Berrien County Road Commission

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Independent Auditor's Report

To the Board of Road Commissioners
Berrien County Road Commission

We have audited the accompanying basic financial statements of the Berrien County Road Commission (a component unit of Berrien County, Michigan) (the "Road Commission") as of and for the year ended September 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Berrien County Road Commission at September 30, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information presented on page 24 are not required parts of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

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To the Board of Road Commissioners
Berrien County Road Commission

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Berrien County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

January 5, 2006

Berrien County Road Commission

Management's Discussion and Analysis

This section of the Berrien County Road Commission's (the "Road Commission") annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal year ended September 30, 2005. Please read it in conjunction with the Road Commission's financial statements, which follow this section.

Financial Highlights

- The Road Commission's total net assets increased by \$5.0 million.
- Total revenue sources for the year of \$16.8 million exceeded expenditures of \$11.8 million by \$5.0 million before the inclusion of the contribution of infrastructure.
- \$6.7 million was invested in capital assets during the year.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The governmental funds balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified-accrual basis and then in total on a full-accrual basis. The modified-accrual fund-based columns present a short-term view of the Road Commission; they tell us how much is available for future spending. The total full-accrual column is intended to present a longer-term view and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified-accrual basis and then in total on a full-accrual basis. The modified-accrual fund-based columns tell us how the taxpayers' money was spent during the year, while the total full-accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with more detail regarding revenue, expenditures, and changes in fund balances.

Financial Analysis of the Road Commission as a Whole

Unrestricted net assets and state aid - Act 51 revenue for 2004 have been adjusted to comply with a reporting change required by the State of Michigan.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Net Assets - The Road Commission's net assets increased during 2005 by \$5.0 million ending the year at \$27.6 million. The table below shows the composition of the Road Commission's net assets at September 30, 2005.

	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ 9,405,640	\$ 8,318,646
Capital assets	<u>23,176,326</u>	<u>19,083,352</u>
Total assets	32,581,966	27,401,998
Liabilities		
Long-term liabilities outstanding	2,900,017	3,365,792
Other liabilities	<u>2,078,464</u>	<u>1,465,551</u>
Total liabilities	<u>4,978,481</u>	<u>4,831,343</u>
Net Assets		
Invested in capital assets - Net of related debt	19,700,751	15,224,179
Restricted for debt service	226,062	282,666
Unrestricted	<u>7,676,672</u>	<u>7,063,810</u>
Total net assets	<u>\$ 27,603,485</u>	<u>\$ 22,570,655</u>

Changes in Net Assets - The Road Commission's change in net assets was primarily due to the capitalization of current year infrastructure expenditures included in capital assets. Infrastructure consists of constructing or reconstructing roads, bridges, and intersections. Other changes include various revenue sources and expense categories as shown on the next page.

The Michigan Transportation Fund revenue is a statutory formula that is structured to share various fuel tax and license fees collected by the State of Michigan with cities, Road Commissions, and the Michigan Department of Transportation. This revenue item is the primary source of revenue for the Road Commission. For 2005, there was a \$.4 million decrease in Michigan Transportation Fund receipts and an increase of \$0.3 million in federal and state aid. Other revenue increased \$0.7 million due to revenue received from the State for nonmaintenance projects.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

The expenditures were \$3.0 million higher than last year. The majority of the expenditure increase is related to the exclusion of sealcoat projects for capitalization as part of the infrastructure in 2005. The prior year's capitalized sealcoat projects were also written off in 2005 resulting in a \$1.1 million loss on disposal of assets. The remainder of the expenditure increase was in maintenance, the largest of the categories, which includes activities on all local, primary, and state trunkline roads. The increase of maintenance expenditures from year to year is a result of the variation of requirements for winter maintenance, the inclusion of sealcoat projects that were previously capitalized, and the addition of state nonmaintenance activity. The Road Commission maintains 998 miles of local roads, 478 miles of primary roads, and 10 lane miles of state trunkline roads.

	Governmental Activities	
	2005	2004
Revenue		
State aid - Act 51	\$ 10,856,585	\$ 11,240,169
Federal/State sources	2,581,289	2,301,039
Revenue from local governments	2,386,273	2,527,625
Other	1,043,543	220,575
Total revenue	16,867,690	16,289,408
Expenses		
Maintenance	8,629,343	6,584,130
Administrative	1,031,803	971,101
Depreciation	1,480,534	1,529,323
Loss on disposal of assets	870,408	-
Interest and other	(177,228)	(282,530)
Total expenses	11,834,860	8,802,024
Change in Net Assets	\$ 5,032,830	\$ 7,487,384

Financial Analysis of Commission's Funds

The Road Fund fund balance ended the year at \$6.5 million, which is \$0.9 million more than the previous year. Portions of this balance are reserved for anticipated needs in the near future. The total reserved fund balance is \$0.4 million. The remaining unreserved fund balance is \$6.1 million, which is up from the previous year amount of \$5.6 million.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Road Fund Budgetary Highlights

The Road Commission amended its 2005 budget on one occasion during the year to reflect changes in budgeted projects and activities. The final expenditure budget was \$0.5 million higher than the original budget primarily as a result of the state nonmaintenance activity this year. This resulted in an increase in state nonmaintenance revenue of \$0.8 million offset by a reduction in revenue from federal and state aid sources.

Capital Assets

The Road Commission had \$23.2 million in net capital assets at the end of the year, which includes \$14.4 million of infrastructure activities. The first year of implementing GASB No. 34, which required infrastructure reporting, was 2003. Capital assets reflected in 2005 include 2003, 2004, and 2005 infrastructure activity. Retroactive reporting of infrastructure activities back to 1980 will occur prior to September 30, 2007.

	Governmental Activities	
	2005	2004
Land and land improvements	\$ 5,774,009	\$ 4,205,848
Buildings and storage bins	634,180	661,609
Road equipment	2,075,432	1,828,218
Other equipment	328,703	352,940
Infrastructure	14,364,002	12,034,737
Total	<u>\$ 23,176,326</u>	<u>\$ 19,083,352</u>

Economic Factors and Next Year's Budget

The Michigan Transportation Fund (MTF), the repository of fuel taxes and vehicle registration fees collected by the State, is the principal source of Road Commission funding. Based on the last 12-month MTF revenue collection report by the Department of Treasury, the MTF is down from the previous year, which resulted in a reduction of \$1.4 million to the Road Commission in fiscal year 2005.

Considering the way fuel prices are increasing, we believe that fuel consumption will not increase in the near future which means the Road Commission's revenues will not increase. Also, the State of Michigan transferred an additional \$10.0 million from the MTF to the Secretary of State for this next fiscal year, which will mean a decrease to the Road Commission of approximately \$60,000 in MTF revenues.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

World political conditions may affect crude oil prices that may affect the Road Commission's costs of fuel for operations and asphalt paving prices. A significant cost increase in these commodities may result in workload adjustments and project deferrals.

Contacting the Road Commission's Financial Management

This financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to the director of finance, Berrien County Road Commission, P.O. Box 768, Benton Harbor, MI 49023-0768 or visit our webpage at: www.roadcommission.com.

Berrien County Road Commission

Governmental Funds Balance Sheet/Statement of Net Assets September 30, 2005

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
Assets			
Cash and investments (Note 3)	\$ 4,068,262	\$ -	\$ 4,068,262
Restricted cash - Debt service (Note 3)	226,062	-	226,062
Due from other government units	3,457,110	-	3,457,110
Special assessment receivable	378,427	-	378,427
Inventory	763,152	-	763,152
Prepaid expenses	209,778	-	209,778
Deferred expense	302,849	-	302,849
Capital assets - Net (Note 4):			
Assets being depreciated	-	17,402,317	17,402,317
Assets not being depreciated	-	5,774,009	5,774,009
Total assets	<u>\$ 9,405,640</u>	23,176,326	32,581,966
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	\$ 876,452	-	876,452
Advances	534,237	-	534,237
Deferred revenue (Note 5)	1,492,168	(1,492,168)	-
Escrow	2,000	-	2,000
Long-term debt, due within one year (Note 7)	-	665,775	665,775
Long-term debt, due in more than one year (Note 7)	-	2,809,800	2,809,800
Compensated absences (Note 6)	-	90,217	90,217
Total liabilities	2,904,857	2,073,624	4,978,481
Fund Balances			
Reserved for debt service	226,062	(226,062)	-
Reserved for prepaid expenses	209,778	(209,778)	-
Unreserved	6,064,943	(6,064,943)	-
Total fund balances	<u>6,500,783</u>	<u>(6,500,783)</u>	-
Total liabilities and fund balances	<u>\$ 9,405,640</u>		
Net Assets			
Investments in capital assets - Net of related debt		19,700,751	19,700,751
Restricted for debt service		226,062	226,062
Unrestricted		7,676,672	7,676,672
Total net assets		<u>\$ 27,603,485</u>	<u>\$ 27,603,485</u>

Berrien County Road Commission

Statement of Governmental Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended September 30, 2005

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
Revenue			
State aid - Act 51	\$ 10,856,585	\$ -	\$ 10,856,585
Federal/State sources	2,811,289	(230,000)	2,581,289
Revenue from local governments	1,773,138	-	1,773,138
Special assessments	136,825	(136,825)	-
Contribution of Infrastructure	-	613,135	613,135
Interest, fees, and other revenue	1,043,543	-	1,043,543
Total revenue	16,621,380	246,310	16,867,690
Expenditures			
Current:			
Primary construction	58,467	(58,467)	-
Primary heavy maintenance	2,687,232	(2,686,902)	330
Primary heavy maintenance - Safety	154,836	(154,836)	-
Primary heavy maintenance - Bridges	19,210	(7,880)	11,330
Local construction	117,982	(117,982)	-
Local heavy maintenance	1,070,974	(882,380)	188,594
Local heavy maintenance - Safety	6,528	-	6,528
Local heavy maintenance - Bridges	1,031,877	(1,031,877)	-
Primary maintenance	3,765,071	-	3,765,071
Local maintenance	3,841,155	-	3,841,155
State maintenance	73,441	-	73,441
State nonmaintenance	742,894	-	742,894
Administrative	1,095,490	(63,687)	1,031,803
Net capital outlay	270,286	(270,286)	-
Less equipment rental charged to other expenditures	554,011	(865,901)	(311,890)
Depreciation expense	-	1,480,534	1,480,534
Loss on disposal of assets	-	870,408	870,408
Debt service:			
Principal retirement	583,598	(583,598)	-
Interest/Fees	134,662	-	134,662
Total expenditures	16,207,714	(4,372,854)	11,834,860
Revenue Over Expenditures	413,666	4,619,164	5,032,830
Other Financing Sources			
Proceeds from sale of assets	309,417	(309,417)	-
Long-term debt proceeds	200,000	(200,000)	-
Total other financing sources	509,417	(509,417)	-
Change in Fund Balance/Net Assets	923,083	4,109,747	5,032,830
Fund Balance/Net Assets - Beginning of year, as restated (Note 11)	5,577,700	16,992,955	22,570,655
Fund Balance/Net Assets - End of year	\$ 6,500,783	\$ 21,102,702	\$ 27,603,485

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 1 - Significant Accounting Policies

Berrien County Road Commission (a component unit of Berrien County, Michigan) (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the county road system in Berrien County. The Road Commission's financial statements will be included in the basic financial statements of the County of Berrien, Michigan.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of government-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and have been separately stated in conjunction with the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statement.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 1 - Significant Accounting Policies (Continued)

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Inventory and Prepaid Items - Inventory, principally consisting of road material, salt, signs, and equipment maintenance materials, is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, culverts, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life of three years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at estimated fair market value at the date of donation.

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 1 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line or units of production methods over the following useful lives:

	Methods	Useful Lives - Years
Buildings	Straight-line	40
Salt storage bins	Units of production	Various
Road equipment	Sum of years - Digits	5-8
Other equipment	Straight-line	10-20
Roads	Straight-line	5-30
Other infrastructure	Straight-line	12-50

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to allow employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The Road Commission does not accrue for unused sick pay benefits.

Long-term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statement columns. Bond premium and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Other accounting policies are disclosed in the following notes to the financial statements.

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statement column are different from amounts reported in the governmental fund column because of the following:

Governmental funds - Fund balance	\$ 6,500,783
Capital assets used in governmental activities are not financial resources and are not reported in the funds	23,176,326
Special assessment receivables and due from federal government not collected are not available to pay for current year expenditures within 60 days of year end	1,492,168
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,475,575)
Compensated absences and provision for workers' compensation and health uninsured losses are not reported in the funds	<u>(90,217)</u>
Government-wide net assets	<u><u>\$ 27,603,485</u></u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balances - Total governmental funds	\$ 923,083
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	4,659,664
Contributions of infrastructure are recorded in the statement of activities, but are not recorded in the governmental fund	613,135
In the statement of activities, only the loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold	(1,179,825)
Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	583,598
Proceeds from issuance of debt are a revenue in the governmental funds, but not in the statement of activities (where they increase long-term debt)	(200,000)
In the governmental funds, special assessment and grant receipts not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	<u>(366,825)</u>
Change in net assets of governmental activities	<u>\$ 5,032,830</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated two banks for the deposit of its funds, in addition to funds held by Berrien County. The Road Commission follows the investment policy adopted by Berrien County. In accordance with Public Act 196 of 1997, the policy has authorized investment in bonds and securities and other obligations of the United States government; bank accounts and CDs; limited commercial paper, not to exceed 25 percent of any fund; repurchase agreements limited to United States government investments; and certain investment pools, excluding mutual funds. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$80,423 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Fannie Mae pooled investments	\$ 1,844,275	21.9 years
Freddie Mac pooled investments	1,191,556	23.5 years
U.S. Treasury pooled investments	168,760	0 years
Ginnie Mae pooled investments	78,060	24.5 years

Concentration of Credit Risk

The Road Commission places no limit on the amount that may be invested in any one issuer. More than 5 percent of the Road Commission's investments are in the following investments:

Investment	Percent
Fannie Mae pooled investments	56.18
Freddie Mac pooled investments	36.30
U.S. Treasury pooled investments	5.14

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 4 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated -				
Land and land improvements	\$ 4,205,848	\$ 1,568,161	\$ -	\$ 5,774,009
Capital assets being depreciated:				
Buildings and storage bins	2,061,697	36,264	-	2,097,961
Road equipment	9,825,863	1,133,545	709,634	10,249,774
Other equipment	982,631	30,065	-	1,012,696
Infrastructure	12,738,387	3,985,298	1,306,852	15,416,833
Subtotal	25,608,578	5,185,172	2,016,486	28,777,264
Less accumulated depreciation:				
Buildings and storage bins	1,400,088	63,693	-	1,463,781
Road equipment	7,997,645	811,599	634,902	8,174,342
Other equipment	629,691	54,302	-	683,993
Infrastructure	703,650	550,940	201,759	1,052,831
Subtotal	10,731,074	1,480,534	836,661	11,374,947
Net capital assets being depreciated	14,877,504	3,704,638	1,179,825	17,402,317
Net capital assets	<u>\$ 19,083,352</u>	<u>\$ 5,272,799</u>	<u>\$ 1,179,825</u>	<u>\$ 23,176,326</u>

GASB No. 34 requires the Road Commission to report and depreciate new infrastructure assets. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Road Commission. The retroactive reporting of infrastructure, required by GASB No. 34, is subject to an extended implementation period and is first effective for the Road Commission's 2007 fiscal year. The Road Commission has elected to implement the general provisions of GASB No. 34 and plan to implement the retroactive provisions for infrastructure assets in a fiscal year ending no later than September 30, 2007.

The Road Commission had commitments for construction contracts totaling approximately \$1,700,000 at September 30, 2005.

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 5 - Deferred Revenues

Deferred revenues for the year ended September 30, 2005 were as follows:

Special assessment receivable	\$ 378,427
Due from federal government	<u>1,113,741</u>
Total	<u>\$ 1,492,168</u>

Deferred revenue was reclassified to net assets on the government-wide financial statements since these amounts represent revenue earned in prior years.

Note 6 - Other Long-term Liabilities

Insurance Programs

The Road Commission is exposed to various risks related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for torts, errors and omissions, and for medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-insurance Pool for tort, errors and omissions, and property liability. The Road Commission participates in the County Road Association Self-insurance Fund for worker's compensation insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan County Road Commission Self-Insurance Pool and County Road Association Self-insurance Fund programs operate as a common risk-sharing management program for road commission units in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Compensated Absences

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, employees earn vacation time based on length of service with the Road Commission.

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the Road Commission as of September 30, 2005:

	Interest Rate	Maturing Through	Beginning Balance	Additions	Reductions	Principal Outstanding	Amount Due Within One Year
1998 Michigan Department of Transportation Bond	4.00%	2008	\$ 500,000	\$ -	\$ (125,000)	\$ 375,000	\$ 125,000
2000 Michigan Department of Transportation Bond	4.5% to 4.75%	2010	2,540,000	-	(300,000)	2,240,000	350,000
Berrien Township - Note payable	0%	2014	469,800	-	(50,000)	419,800	50,000
Watervliet Township - Note payable	0%	2005	44,650	-	(25,000)	19,650	19,650
Watervliet Township - Note payable	0%	2009	-	200,000	-	200,000	-
Bainbridge Township - Note payable	0%	2005	35,483	-	(25,000)	10,483	10,483
Oronoko Township - Note payable	0%	2007	72,200	-	-	72,200	25,000
Buchanan Township - Note payable	0%	2007	77,800	-	-	77,800	25,000
Public Finance.com - Machinery and equipment capital lease	3.49%	2006	119,240	-	(58,598)	60,642	60,642
Total			<u>\$ 3,859,173</u>	<u>\$ 200,000</u>	<u>\$ (583,598)</u>	<u>\$ 3,475,575</u>	<u>\$ 665,775</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 7 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended September 30, 2005:

Balance - Beginning of year	\$ 3,859,173
Additional borrowings	200,000
Debt retired	<u>(583,598)</u>
Balance - End of year	<u><u>\$ 3,475,575</u></u>

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of September 30, 2005 (excluding liabilities for compensated absences) are as follows:

Fiscal Years Ending September 30	Principal	Interest	Total
2006	\$ 665,775	\$ 112,992	\$ 778,767
2007	675,000	90,038	765,038
2008	575,000	69,025	644,025
2009	450,000	47,838	497,838
2010	500,000	40,750	540,750
2011-2014	<u>609,800</u>	<u>-</u>	<u>609,800</u>
Total	<u><u>\$ 3,475,575</u></u>	<u><u>\$ 360,643</u></u>	<u><u>\$ 3,836,218</u></u>

Interest

Interest expense of the Road Commission for the year ended September 30, 2005 was \$134,662.

Note 8 - Budget Information

The annual budget is prepared by the Road Commission management and adopted by the board of road commissioners; subsequent amendments are approved by the board of road commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 8 - Budget Information (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the board of road commissioners is included in the body of the required supplemental information.

Note 9 - Postemployment Benefits

The Road Commission offers health care benefits and a death benefit to all full-time employees upon retirement. Benefits are offered to pre-Medicare retirees and their dependents in the Road Commission's insured health care plan, with contributions required by the participant. As of September 30, 2005, there were 17 retirees participating in the plan and premiums paid by the Road Commission totaled approximately \$23,700.

Note 10 - Defined Benefit Pension Plan

Plan Description

The Road Commission participates in the Berrien County Employees Amended Retirement Plan, a county Public Employee Retirement System, which is a cost-sharing multiple-employer PERS that covers all full-time employees of the Road Commission. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Berrien County Employees Amended Retirement Plan issues a publicly available financial report that includes financial statements and required supplemental information for the plan. That report may be obtained by writing to the system at the Berrien County Courthouse, 811 Port Street, St. Joseph, Michigan 49085.

Funding Policy

The obligation to contribute to and maintain the plan for these employees was established by board resolution and requires a contribution from the employees of 6 percent of compensation. The Road Commission is required to contribute at an actuarially determined rate, currently 4.38 percent of payroll. The Road Commission's contributions to the plan for the years ended September 30, 2005, 2004, and 2003 were \$120,190, \$111,403, and \$111,275, respectively. The contributions are equal to or greater than the required contributions for each year.

Berrien County Road Commission

Notes to Financial Statements September 30, 2005

Note 11 - Prior Period Adjustment

The following is a reconciliation of the October 1, 2004 governmental activities fund balance/net assets as previously reported to the restated fund balance/net assets balance for the same period to account for prior period adjustments. All amounts collected from the State of Michigan for Act 51 revenue within 60 days of year end should have been recorded as a receivable at September 30, 2004.

	Governmental Fund - Road Fund	Statement of Activities
Fund balance/net assets as previously reported	\$ 4,629,938	\$ 21,622,893
Prior period restatement - Due from state	<u>947,762</u>	<u>947,762</u>
Restated fund balance/net assets	<u>\$ 5,577,700</u>	<u>\$ 22,570,655</u>

Note 12 - Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2008.

Required Supplemental Information

Berrien County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended September 30, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Act 51	\$ 10,505,000	\$ 10,682,000	\$ 10,856,585	\$ 174,585
Federal/State sources	4,537,250	3,140,000	2,811,289	(328,711)
Revenue from local governments	828,000	1,499,000	1,773,138	274,138
Special assessments	145,000	145,000	136,825	(8,175)
Interest, fees, and other revenue	132,000	984,000	1,043,543	59,543
Pipestone bond fund	150,000	-	-	-
Total revenue	16,297,250	16,450,000	16,621,380	171,380
Expenditures				
Current:				
Primary construction	5,000	40,000	58,467	(18,467)
Primary heavy maintenance	5,289,500	3,700,000	2,687,232	1,012,768
Primary heavy maintenance - Safety	516,600	200,000	154,836	45,164
Primary heavy maintenance - Bridges	275,000	50,000	19,210	30,790
Local construction	80,000	118,000	117,982	18
Local heavy maintenance	291,000	1,200,000	1,070,974	129,026
Local heavy maintenance - Safety	116,000	10,000	6,528	3,472
Local heavy maintenance - Bridges	887,000	1,170,000	1,031,877	138,123
Primary maintenance	3,722,000	3,880,000	3,765,071	114,929
Local maintenance	3,580,900	3,890,000	3,841,155	48,845
Administrative	979,000	1,075,000	1,095,490	(20,490)
State maintenance	55,000	73,000	73,441	(441)
State nonmaintenance	-	801,000	742,894	58,106
Equipment and capital outlay - Net of depreciation credits	649,992	768,000	824,297	(56,297)
Debt service:				
Principal retirement	583,598	583,598	583,598	-
Interest/Fees	134,662	134,662	134,662	-
Total expenditures	17,165,252	17,693,260	16,207,714	1,485,546
Excess (Deficiency) of Revenue Over Expenditures	(868,002)	(1,243,260)	413,666	1,656,926
Other Financing Sources				
Proceeds from sale of assets	287,530	299,000	309,417	10,417
Long-term debt proceeds	205,000	200,000	200,000	-
Total other financing sources	492,530	499,000	509,417	10,417
Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures	(375,472)	(744,260)	923,083	1,667,343
Fund Balance - Beginning of year	5,577,700	5,577,700	5,577,700	-
Fund Balance - End of year	<u>\$ 5,202,228</u>	<u>\$ 4,833,440</u>	<u>\$ 6,500,783</u>	<u>\$ 1,667,343</u>

Other Supplemental Information

Berrien County Road Commission

Other Supplemental Information Analysis of Changes in Road Fund Balances Year Ended September 30, 2005

	Primary Road	Local Road	County Road	Total
Total Revenue	\$ 10,558,665	\$ 5,946,118	\$ 116,597	\$ 16,621,380
Total Expenditures	<u>8,997,401</u>	<u>6,851,535</u>	<u>358,778</u>	<u>16,207,714</u>
Excess (Deficiency) of Revenue Over Expenditures	1,561,264	(905,417)	(242,181)	413,666
Other Financing Sources	<u>200,000</u>	<u>-</u>	<u>309,417</u>	<u>509,417</u>
Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures	1,761,264	(905,417)	67,236	923,083
Interfund Transfer	(905,417)	905,417	-	-
Fund Balance - Beginning of year	<u>3,674,227</u>	<u>-</u>	<u>1,903,473</u>	<u>5,577,700</u>
Fund Balance - End of year	<u>\$ 4,530,074</u>	<u>\$ -</u>	<u>\$ 1,970,709</u>	<u>\$ 6,500,783</u>

Berrien County Road Commission

Other Supplemental Information Analysis of Road Fund Revenue Year Ended September 30, 2005

	Primary Road	Local Road	County Road	Total
State aid - Act 51:				
Michigan Transportation Fund:				
Engineering	\$ 6,667	\$ 3,333	\$ -	\$ 10,000
Allocation	6,030,464	2,976,722	-	9,007,186
Urban roads	1,238,898	563,054	-	1,801,952
Snow removal	24,964	12,483	-	37,447
Federal/State sources:				
Critical bridge	30,841	45,471	-	76,312
Economic development	270,164	-	-	270,164
Surface transportation program	1,411,348	73,848	-	1,485,196
Bridge	5,115	866,425	-	871,540
Railroad safety	108,077	-	-	108,077
Contributions:				
Township	208,000	1,279,822	-	1,487,822
County	170,739	94,797	-	265,536
City and village	-	19,780	-	19,780
Special assessment - Principal and interest	136,825	-	-	136,825
Other revenue:				
Interest earned	26,855	-	80,557	107,412
Trunkline maintenance	73,440	-	-	73,440
Trunkline nonmaintenance	805,855	-	-	805,855
Salvage sales	-	-	7,367	7,367
Indrive culvert	10,034	10,034	-	20,068
Other	379	349	28,673	29,401
Total revenue	<u>\$ 10,558,665</u>	<u>\$ 5,946,118</u>	<u>\$ 116,597</u>	<u>\$ 16,621,380</u>

Berrien County Road Commission

Other Supplemental Information Analysis of Road Fund Expenditures Year Ended September 30, 2005

	Primary Road	Local Road	County Road	Total
Primary road:				
Construction	\$ 58,467	\$ -	\$ -	\$ 58,467
Heavy maintenance	2,687,232	-	-	2,687,232
Maintenance	3,765,071	-	-	3,765,071
Safety	154,836	-	-	154,836
Local road:				
Construction	-	117,982	-	117,982
Heavy maintenance	-	1,070,974	-	1,070,974
Maintenance	-	3,841,155	-	3,841,155
Safety	-	6,528	-	6,528
Primary road structures -				
Heavy maintenance	19,210	-	-	19,210
Local road structures -				
Heavy maintenance	-	1,031,877	-	1,031,877
Charges for services:				
State maintenance	73,441	-	-	73,441
State nonmaintenance	742,894	-	-	742,894
Administrative expense - Net	574,212	521,278	-	1,095,490
Net equipment expense	266,538	261,741	25,732	554,011
Net capital outlay	-	-	270,286	270,286
Debt service:				
Debt principal payments	525,000	-	58,598	583,598
Interest expense	130,500	-	4,162	134,662
Total expenditures	<u>\$ 8,997,401</u>	<u>\$ 6,851,535</u>	<u>\$ 358,778</u>	<u>\$ 16,207,714</u>

Berrien County Road Commission

Other Supplemental Information Statement of Road Fund Administrative Expenditures Year Ended September 30, 2005

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Office salaries and wages		\$ 745,888	
Repairs and maintenance		7,826	
Commissioners' compensation		16,750	
Professional services		86,335	
Conference and travel		24,192	
Office supplies		21,114	
Advertising		10,815	
Dues and subscriptions		13,676	
Telephone		18,572	
Postage		4,816	
Insurance		40,743	
Depreciation		63,693	
Equipment rental		19,830	
Utilities		19,866	
Miscellaneous		<u>1,445</u>	
Total administrative expenditures	\$ 1,075,000	1,095,561	\$ (20,561)
Less purchase discounts	<u>-</u>	<u>(71)</u>	<u>71</u>
Net administrative expenditures	<u>\$ 1,075,000</u>	<u>\$ 1,095,490</u>	<u>\$ (20,490)</u>

To the Board of Road Commissioners
Berrien County Road Commission
Benton Harbor, Michigan 49022

In connection with our audit of the books and records of the Berrien County Road Commission (the "Road Commission") for the year ended September 30, 2005, we offer the following comments and suggestions:

We would again like to compliment the Road Commission on the additional improvements in the accounting records. A lot has been accomplished in the last year. We will be discussing with management additional ways we can work together to increase audit efficiency and timeliness in the future.

Internal Controls

Manual Journal Entry Review Process - It is our understanding that the finance director's manual journal entries are currently not undergoing independent review. We continue to recommend that management institute a monthly review process by the Road Commission or another member of management. The implementation of this review process will strengthen internal controls over the manual journal entry process.

Reminder of Upcoming Reporting Change

Retiree Health Care Benefits - The Governmental Accounting Standards Board released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

The pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets.

To the Board of Road Commissioners
Berrien County Road Commission

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB No. 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Therefore, the Road Commission will be required to implement the pronouncement in the fiscal year beginning October 1, 2007. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates. We are in the process of accumulating a list of actuaries who are prepared to perform these valuations.

We sincerely thank you and appreciate the courtesy and cooperation extended to us by you and members of the Road Commission during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

This report is intended solely for the information and use of the Road Commission's board and management.

Plante & Moran, PLLC

January 5, 2006